

VZCZCXR08256
PP RUEHMA RUEHPA
DE RUEHOS #0429/01 3031621
ZNR UUUUU ZZH
P 291621Z OCT 08
FM AMCONSUL LAGOS
TO RUEHC/SECSTATE WASHDC PRIORITY 0265
INFO RUEHZK/ECOWAS COLLECTIVE
RUEHUJA/AMEMBASSY ABUJA 9913
RUFOADA/JAC MOLESWORTH AFB UK
RUEKJCS/SECDEF WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHDC
RHMCSSU/DEPT OF ENERGY WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHDC
RUEAIIA/CIA WASHINGTON DC
RHEFDIA/DIA WASHINGTON DC
RUEWMFD/HQ USAFRICOM STUTTGART GE

UNCLAS SECTION 01 OF 02 LAGOS 000429

SENSITIVE
SIPDIS

DOE FOR GPERSON, CHAYLOCK

E.O. 12958: N/A

TAGS: ENRG EINV EPETEIND NI

SUBJECT: NIGERIA: LOCAL COMPANY DEVELOPS NATURAL GAS PIPELINE TO POWER LAGOS' INDUSTRIAL SECTOR

REF: A. LAGOS 157

1B. LAGOS 122

1C. LAGOS 167

SENSITIVE BUT UNCLASSIFIED BUSINESS PROPRIETARY INFORMATION;
HANDLE ACCORDINGLY

11. (SBU) Summary. A natural gas distribution pipeline serving industrial customers is an example of a rare success story in Nigeria's slow developing domestic gas sector. The pipeline, owned by Oando Gas and Power, serves 82 industrial customers in Lagos. Oando does suffer from typical political meddling and unreliable gas supplies, but the company plans to double its existing capacity in Lagos and to develop a second distribution pipeline network in Calabar. Oando sees power projects tied to specific industrial customers as a more feasible method for improving Nigeria's power situation than the construction of large, on-grid IPPs which Oando shuns as too risky in light of transmission and distribution problems. To expand rapidly, local companies like Oando will need foreign capital while they provide the local market and political expertise necessary for operating a successful business in Nigeria. End Summary.

Expansion Planned for Successful Gas Distro System

12. (U) While the news about Nigeria's erratic natural gas sector has been generally negative, one local company is making in-roads in supplying local industrial consumers with natural gas. Oando Gas and Power, a subsidiary of Oando Plc, operates Gaslink, a 100 km natural gas distribution pipeline that serves industrial customers in Lagos' Ikeja and Apapa areas. Oando currently has supply contracts with 82 customers, including Heineken, Cadbury, and the state water company, delivering one million cubic meters of gas per day. Customers use the fuel for heating and steam generation needed in their industrial processes and some customers are converting existing diesel power generators, to run on natural gas. The natural gas originates in Chevron and Shell fields in the western Niger Delta and is transported to Lagos area through the Nigerian Gas Company (NGC) Escravos-Lagos Pipeline. (Note: That pipeline also supplies the Lagos Egbin power station and the West African Gas Pipeline that will supply gas to Ghana, Benin and Togo. End note.)

13. (SBU) Olalere Odusote, Business Development Manager for Oando Gas and Power, told Energyoff on October 14 that the

company has plans to expand the Gaslink pipeline to serve more areas in Lagos. Additionally, two off-grid mini-power projects, both less than 50 megawatts each, will be built for the state water company in Ikeja and for the Apapa port authority. These expansion plans and mini-power plants will double the amount of gas Oando currently supplies to customers.

Oando Shuns IPPs as Too Risky

¶ 14. (SBU) When asked by Energyoff about possible Oando interest in building larger independent power plants to feed the Nigerian electricity grid, Odusote demurred. He noted Nigeria's dilapidated distribution and transmission systems make such projects very risky and he said Nigeria's new multi-year tariff order sets prices too low to make the market attractive for potential private investors. Oando plans to expand by building on relationships with existing industrial customers in Lagos while seeking opportunities to replicate the model in Calabar. He thought expansion of Nigeria's currently inadequate power supply must be based on industrial customers ready and able to pay market prices for power.

Oando Suffers From Political Meddling, Supply Problems

¶ 15. (SBU) Oando's business model is not without controversy. The company's Managing Director was summoned to appear before the Senate Committee on Natural Gas on October 20 to explain

LAGOS 00000429 002 OF 002

a recent decision to raise gas prices by 50 percent. Senators complained that Oando was unfairly taking advantage of its monopoly position and hurting Nigerian manufacturers. Odusote told Energyoff that Oando's pricing model was complex, but transparent. NGC, a state-owned company, buys natural gas from Chevron and Shell at a low fixed price and resells that gas to Gaslink at a percentage of the world market price of fuel oil, an alternate fuel for industrial customers. Oando is allowed to put a standard markup on the gas and part of the revenue Oando generates is shared with NGC, with which Oando has a twenty year gas sales purchase agreement. (Ref A, B)

¶ 16. (SBU) Oando's business model is also vulnerable to Nigeria's inadequate gas infrastructure. Odusote said the supply of natural gas was steady for the first five years of Gaslink's operations, but in the past year and a half, the supply have been erratic and the gas has been too "wet" or filled with condensate. Gas which contains too much condensate could damage both Gaslink and customer equipment. Odusote blamed recent gas quality problems on vandalism of the Escravos Lagos Pipeline and poor pipeline maintenance on the part of NGC. Natural gas is dried in a processing facility and the condensate, a mixture of various hydrocarbon byproducts, is diverted into a side pipeline to be transported away and sold. Vandals tap into the condensate pipeline and steal the condensate, causing the line to be shut down and forcing raw, wet natural gas to be injected directly into the Escravos-Lagos Pipeline without being processed. In addition, Odusote noted that Shell's oil fields are aging and the natural gas they produce naturally contains more and more condensate. He complained Shell has been slow to rectify the problem. Odusote said if the problems with gas quality and supplies continue, Oando may need to declare force majeure on deliveries to its customers. (Ref C)

¶ 17. (SBU) Comment: It is refreshing to see a company make a business of supplying natural gas to domestic customers on a commercial basis in Nigeria, notwithstanding. Oando has indicated it wants to replicate this model in the Calabar area. As they expand, Oando and its Nigerian competitors, will likely seek foreign partners to supply not

only financial capital, but human capital as well. (Note: Shell Gas will develop a network to supply Oshun State and four other companies are completing pipeline and other infrastructure to supply gas to Lagos State. End note.) Most of the top notch Nigerian gas and power executives have extensive experience with international oil or industrial companies. Odusote himself is a product of General Electric's well regarded management training program. Conversely, foreign investors, especially in gas and power, would be well advised to seek out competent, stable, and politically savvy Nigerian corporate partners to help navigate this country's complex political and operating environment. End Comment.

BLAIR